Fire Insurance Monographs

State Fire Insurance Board

With

Graphic Charts

By

GEORGE H. HOLT

THIRD EDITION—REVISED

Policy Holders Union, Chicago

No. 851 B

Proof of Profit

Graphic Chart No. I

Geo. H. Holt

LATEST FINANCIAL SHOWING

All United States Stock Fire Insurance Companies Reporting to Connecticut, 1911

Capital (including Stock Dividends)	$68,200,000
Book value	$191,600,000
Market value	$214,400,000
Profit	$144,200,000

Compiled from the Spectator Tables and current market reports.

All losses of every kind are taken into the account in these figures.

RECORD SINCE ORGANIZATION

Of All United States Stock Fire Insurance Companies Reporting to Connecticut, 1911

Contributed Capital.....$56,000,000

Stock Dividends.....$12,200,000

Accumulated Surplus.....$127,500,000

Cash Dividends paid.....$269,600,000

Stockholders' showing since organization.....$465,300,000

All losses and expenses of every kind accounted for.

See Graphic Chart No. 1.

Capital (as above).....$68,200,000

Market value.....$214,400,000

Profit on Stock alone.....$144,200,000

SPECTATOR TABLES

1901 - 1910

Includes all Conflagrations and all Companies

This is the amount that the Stockholders put up in Cash and Stock Dividends..... $80,000,000

This is the amount that the Policyholders got for Losses in 10 years.....$1,523,000,000

This is the amount that the Policyholders did not get..$1,485,000,000

EXPENSES OTHER THAN DIVIDENDS | CASH DIVIDENDS | SURPLUS

Capital and Surplus now on hand.....$277,000,000

Capital..... 80,000,000

Gain in Surplus.....$197,000,000

SPECTATOR TABLES

All Foreign Companies (28)

Licensed in Connecticut Prior to 1910

Sent to U. S. from Home Offices, 1909–1910.....$4,176,447

Remitted to Home Offices from U. S., 1909–1910.....$15,332,232

Net amount sent abroad, 28 companies, 1909–1910.....$11,155,785

Note the net gain for two years only.

GAIN AND LOSS EXHIBIT

All United States Stock Fire Insurance Companies Reporting to Connecticut, 1911 Except Spring Garden

Premiums Received since Organization.....$3,400,000,000

Losses Paid since Organization.....$1,900,000,000

Balance unaccounted for. What became of it?.....$1,500,000,000

Capital of these same Companies.....$68,200,000

This Chart shows all fire losses—conflagration and ordinary—and a balance of premiums received of FIFTEEN HUNDRED MILLION DOLLARS, on a Capital of $68,200,000. No account is taken here of any income from Investments or Banking. That would be additional.

State Control of Fire Insurance

Statistics and Argument in Support of the Creation of a State Fire Insurance Board

Presented to the

Illinois Insurance Legislative Committee

By

George H. Holt

Chicago, January 25 and 31, Revised March 25, 1912

KENTUCKY LEGISLATION

The Board of Trade of Louisville, Kentucky, having failed during more than three years to secure consideration from the Board of Underwriters for the improvement in the fire hazard of Louisville, which had resulted from the expenditure of more than $600,000 in the improvement of the water supply and fire protection of that city, decided to ask the Legislature to establish a State Fire Insurance Board.

Senate Bill No. 21, introduced by Senator Hogg, January 11, 1912, is submitted herewith for your consideration.

This measure was argued before the Joint Committee of the Senate and House on Tuesday, January 23, and unanimously recommended for passage. It was passed by the Senate, January 30, by a unanimous vote, 32 to 0; and by the House, February 16, by a vote of 78 to 7, with minor amendments. Senate concurred, 32 to 1, February 19. Total vote 110 for; 8 against.

(The bill was signed by the Governor March 4, with the emergency clause. The members of the Board were appointed March 19 and the first meeting of the Board was held March 21, so that the Law is now in operation.)

The insurance interests were presented by representatives from Chicago, from Louisville, and from the State of Kentucky at large and elsewhere.

The business organizations and the press throughout the state favored the bill.

I beg to submit the following for your consideration in support of the adoption of a similar measure in the State of Illinois.

ARGUMENT BEFORE COMMITTEE

January 25, 1912.

The Legislature of Illinois is the only organized representative of the unorganized citizens of Illinois.

The fundamental and constitutional conception of its purpose and service is that it should regulate the action of its citizens, and all those temporarily resident within its borders in the interest of the community without depriving any individual of his just rights and liberties.

It controls and jealously guards the right of taxing the property of its citizens for public purposes and jealously guards the expenditure of the fund collected by taxation in the interest of the community.

Mr. A. F. Dean says:

> "Everybody admits that fire insurance premiums are a tax, levied, assessed and distributed, it is true, by private enterprise, but no less a tax.
>
> "The citizens of each state have an undoubted right to know that in the apportionment of the fire tax among the several states, they are not being forced year after year to pay a tax that leaves a notably larger margin of profit on the aggregate premiums invested than the profits from other sources."

This insurance tax is now levied and collected and expended by private interests for their own profit. Henry Evans, of the great Continental Fire Insurance Company, states: "It is a business organized and conducted for profit;" and if he had not said so, every sane man knows that it is so.

If the insurance men were the most unselfish and superhuman in the world and professed to be the only people who had the knowledge and integrity to levy an involuntary tax upon the property and commerce of the people of the United States to the extent of hundreds of millions of dollars per annum; and if it were known that up to this time they had executed this trust in a manner above reproach, tested and proved by an audit of disinterested experts; and if no intelligent body of men could be found to challenge such a statement, do you think for a moment that the people of Illinois and of forty-six other states would vote to continue that trust onward from today in the hands of these same underwriters?

If these particular men are so superior in intelligence and integrity and unselfishness that they can be trusted to administer this vast power of taxation without regulation and without representation upon the part of the property owners, why not abandon every other form of taxation to their control and allow them to exercise their sweet will in the matter of how it shall be expended and who shall receive the benefits from it?

It certainly is an economic waste to maintain a multiplicity of organizations for the levying and collecting and expendi-

ture of taxation in the several states so long as we have at hand the organized body of underwriters who are so superior to every human limitation, and are infallible in the administration of justice and equity between individuals and communities and their own pocketbooks.

FUNDAMENTAL QUESTIONS

Have the people of Illinois a right to a hearing of their side of the case?

Is it a square deal to give a private organization, designed for profit, the power of the combined assessor, the tax collector, the judge and the sheriff?

It has certainly been found necessary to curb the activities of the insurance companies in some directions. It has been found advisable to keep watch upon their financial statements. The courts are full of cases in which the private citizen is seeking to recover something that the insurance man is withholding from him. The insurance men themselves are protesting that the business is unprofitable and that it is hampered and interfered with in nearly every state. Insurance men denounce each other and organize separate clans with a view to increasing their proportion of profit as compared with other clans.

Why should the people of Illinois be deprived of rights which the people of other states enjoy? Are the underwriters of Illinois so much superior to the other citizens of Illinois that they ought to be entrusted with the power of confiscating the private property of the citizens at their own pleasure for their own profit?

The question before the Legislature of Illinois is not whether a particular rate or a class of rates is out of line, whether the clerks and employes of the underwriters are competent and acccurate and honest, or whether a particular interest is being favored and other interests are being penalized. These are the very questions that a Rating Board should deal with upon the basis of evidence. A Committee of the Legislature, or even the Legislature itself, will not undertake to settle in detail the rights and equities of the parties in particular cases, in the absence of dependable evidence and investigation.

If the companies are honestly convinced that they have not made money, or have made too little money, is that a convincing reason for a continuation of existing conditions?

If we credit their statement, we certainly discredit their management.

We have a right to know whether the claim is "bona fide," or whether it is designed to deceive the unwary.

We have a right to know whether mismanagement, or criminal action or intent, either on the part of the insured or the insurer, or whether the inadequacy of rates is responsible for the condition of no profit.

If you will read the entire report of the New York Investigating Committee, and especially the thousands of pages of testimony which are printed separately from the report, you will find the existing system of underwriting condemned at almost every point, not only by the Committee but by the Underwriters testifying before the Committee.

Even if it were true that the New York Committee recommended only certain things for New York State, is that any reason why the Legislature of Illinois should do nothing?

A State Rating Board in Illinois could investigate the underlying conditions in New York, and the results of the investigations, and the New York laws, and the differences in schedules and practices in New York, and apply that information in the service of the State of Illinois.

They will find not only the laws of New York, but the administration of its Insurance Department, far more controlling than anything that has been attempted in Illinois.

They will find rates and practices in New York far more advantageous for the property owner than in Illinois.

They will find the loss ratio in New York far higher in proportion to premium than in Illinois, and still all of the companies want to do business in New York at the lower premium rates and the higher loss ratio.

Why should Illinois be deprived of all these advantages?

GAIN AND LOSS EXHIBIT

I hand you herewith (table, page 10) the tabulated summaries of the Gain and Loss Exhibits in the States of Connecticut, New York and Massachusetts, for the years 1909 and 1910, and combined.

These are the latest published statistics, and are the official figures, taken from the State Reports of the Company Reports upon the Convention Report form.

They disprove the claim that there is "no profit in the business." They show the necessity of disinterested and competent audit of company figures before they should be accepted as true.

The reports show the total business of the companies reporting to these states. The smallest number of companies reporting is 154, in Connecticut in 1909; the largest number is 232, in Massachusetts, 1910. Every Company reporting gives almost exactly the same figures for its individual Company to each of the states. The differences are easily accounted for, but are unimportant for this purpose.

These tabulations disprove and discredit THE SPECTATOR, the Jenney and the Law tables of compiled company experience, as a basis of rate making.

GAIN AND LOSS EXHIBIT TABULATIONS

FIRE AND MARINE INSURANCE

CONNECTICUT

Year	No. Co.'s	Premiums Earned	Losses Incurred	Percent. Losses to Premiums	Under. Gains in Surplus	Investment Income Earned	Investment Gains in Surplus	Total Gains in Surplus	Risks in Force
1909	154	$233,537,510	$120,112,907	51.43	$ 18,818,164	$ 28,216,144	$ 23,497,226	$ 24,498,210	$ 37,928,735,105
1910	161	245,687,107	130,028,469	52.92	15,542,534	24,398.244	11,208,740	9,320,529	40,739,545,919
		$479,224,617	$250,141,376	52.17	$ 34,360,698	$ 52,614,388	$ 34,705,966	$ 33,818,739	

NEW YORK

1909	188	$267,532,574	$139,216,539	52.00	$ 22,589,899	$ 32,808,589	$ 26,728,228	$ 27,405,310	$ 40,783,898,784
1910	204	286,021,122	154,130,510	58.10	18,626,339	28,639,637	14,842,846	12,450,662	44,449,042,985
		$553,553,696	$293,347,049	55.05	$ 31,216,238	$ 61,448,226	$ 41,571,074	$ 39,855,972	

MASSACHUSETTS

1909	217	$282,256,336	$137,450,770	49.	$ 38,787,990	$ 34,452,870	$ 28,664,451	$ 29,035,894	
1910	232	297,198,905	150,874,176	50.77	33,196,174	27,768,704	11,155,463	10,440,336	
		$579,455,241	$288,324,946	49.88	$ 71,984,174	$ 62,221,574	$ 39,819,914	$ 39,476,230	

COMBINED EXPERIENCE: 1909 AND 1910

(Expressed in Millions)

	Conn.	N. Y.	Mass.
Risks in force (average)	39,334	42,616	(not given)
Premiums earned	479	554	580
Underwriting gain	34	31	72
Investment gain	35	42	40
Combined gain	69	73	112
Carried to surplus	34	40	39
Margin paid out in dividends and otherwise (except expense items)	35	33	73

Dividends to Stockholders and Mutual Policy Holders included.

BURNING RATIO

Losses incurred upon $100 at risk:

	1909	1910	Combined
Connecticut	.316	.321	.318
New York	.341	.346	.344

Massachusetts (not reported).

A ratio of 50c per $100 is normal, as per Insurance Companies' published standards.

The above difference ought to be looked into in the public interest.

Rate of premium earned upon amount at risk:

Massachusetts	.60
New York	.65

This differs amazingly from the National Board figures.

Losses incurred to premiums:

Connecticut	52.17
New York	55.05
Massachusetts	49.88

This reflects the higher loss ratio in New York than in the other two states. But even that ratio is below the 60% standard of Loss to Premium.

The whole country experience is therefore below—not above—the expected by a large margin.

The Companies had the money.

What did they do with it?

GAIN AND LOSS EXHIBIT

Banking Department

The companies claim that they make no money out of Underwriting, but make their large earnings out of the "Banking Department."

Compare the combined earnings as below:

		Conn.	N. Y.	Mass.
Underwriting	(millions).....	34	31	72
Investment income earned,	"	53	61	62

That shows a large gain from underwriting, but still larger gain from investments.

Compare, however, the amounts shown in surplus:

	Conn.	N. Y.	Mass.
Underwriting gain in surplus.....	34	31	72
Invested gain in surplus.....	35	42	40

From Underwriting (Conn.) $34,000,000

From Investments (Conn.)..$35,000,000

Combined gain in surplus, three states:

From Underwriting $46,000,000

From Investments $39,000,000

GAIN AND LOSS EXHIBIT

Banking Department—Continued

Note the losses in investments which have come out of investment earnings:

	Conn.	N. Y.	Mass.
Investment income earned	53	61	62
Investment gain in surplus	35	42	40
Loss in investments	18	19	22

Earned (Conn.) $53,000,000

Carried to Surplus $35,000,000

Shrinkage.....$18,000,000

In other words, the loss on sales, or upon shrinkage of value, in investments approximates $20,000,000, which is now shown as taken out of Investment Earnings. This is for two years experience.

What item was it taken out of during all the years in which the companies were not required to report the Investment Department gains and losses?

Where did the Investment Department expenses appear in those older reports which are now utilized to show that in a long term of years there has been no profit in underwriting?

We have a right to be shown that the tabulations of a long term of years which are presented as an argument against State Rating, contain facts and figures which are germane to the subject and which are so correlated to existing conditions and prospective conditions as to be in any measure controlling.

These are problems which should be left to the deliberate and authoritative determination of a State Rating Board, subject to review by judicial authority. This is the meaning of the State Rating Bills now proposed, and under their provisions no injustice will fall upon any individual or class. Can this be said of existing conditions?

It is a far safer thing for the insurance companies, if their purpose is to deal justly, to submit their case to such a Board than to submit it to a temporary Committee of any sort which lacks the safeguards afforded by this Bill.

If their case is too weak to stand the light of day when safeguarded as provided in the Kentucky Bill, it certainly is too weak to risk the snap judgment of any disinterested group of citizens.

DISCREDITED STATISTICS

The statistics submitted by the underwriters ought not to be accepted without full investigation. They have been discredited over and over again, and will be discredited by your Committee upon investigation.

They deal with facts and conditions in the distant past, and with companies and methods long since defunct. They have not been tabulated upon any approved system designed to disclose the facts in the public interest.

Within the past two years the companies have been required to report to certain of the states a new tabulation, called the Gain and Loss Exhibit, or sometimes called the Underwriting and Investment Exhibit. We have now in printed form two years of reports of this kind for more than two hundred companies, and these exhibits totally discredit and disprove the previous tabulations and summaries of published results.

The difference disclosed between the tabulations of the Gain and Loss Exhibits and the previous standard tabulations, designed by the companies for their private ends, is a matter of enormous sums of money. It is no trifling percentage, but an appalling sum. These facts are known to the insurance men themselves, and still they publish and offer you the discredited statistics.

Your Committee has not the time, nor is it desirable from any standpoint, that it should undertake to investigate and pass upon the credibility or accuracy of this mass of statistics. That work

should be left to the State Rating Board and its organization, designed and equipped for the purpose and bound to do the work impartially.

What do the Underwriters fear?

If they have anything to fear from investigation, is not that all the more reason why the state should be given the right to investigate? It is well known to your Committee that other states have exercised this right.

If your Committee will investigate, they will find that a large number of bills have been passed covering the different subjects. Superintendent Hotchkiss, of New York, has held that the New York bills give him the power to supervise and regulate rates, and he has assumed and is exercising that authority.

ILLINOIS EXPERIENCE

For purpose of comparison, note the loss ratio in Illinois for the same years as given in the Spectator compilation entitled "Distribution by States of Fire Insurance, 1911 Edition."

Losses incurred to Premiums in Illinois, 1909	45.7%
Losses incurred to Premiums in Illinois, 1910	50.4%

The above is for Stock Companies only.

Mutuals, 1909	53.2%
Mutuals, 1910	54.7%
Grand totals for Continent, 1910	49.7%

SPECTATOR TABLES

See Graphic Chart No. III

Take another set of figures, compiled from THE SPECTATOR Year-Book, for ten years' experience from 1901 to 1910, inclusive, as follows:

Capital (average)	$ 80,000,000
Net surplus (average)	197,000,000
Total income	3,055,000,000
Paid for losses	1,523,000,000
Paid for dividends	240,000,000
Expenses other than losses and dividends	968,000,000

Average number of Stock Companies	323
Average number of Mutual Companies	234
Total	557

In other words, on a capital of $80,000,000, and an accumulated net surplus of $197,000,000 they have paid dividends of $240,000,000; have divided up among themselves in salaries and expenses and entertainment, etc., $968,000,000.

These are the figures in THE SPECTATOR Year-Book, and until you juggle with them, they show this condition of things.

They include all of the recent conflagrations, San Francisco, Baltimore, Toronto, Rochester, Paterson, Chelsea, and many others. Think of that a moment! These profits are over and above *all* losses, conflagration and ordinary.

The Company method is to make up a different tabulation, and to shift items here and there, and then to draw off percentages and partial figures of one kind and another, so that when they present these emasculated statistics, they may indeed express accurately the results of such calculations, but those calculations are not designed to show and do not show the whole state of the case.

EFFECT OF ERROR

Through a clerical error in transcribing the original copy of this table, the item "Paid for Dividends" was entered as $340,000,000 instead of $240,000,000, substituting a 3 for a 2. This error appears in the first edition of the Monograph and in the comment upon it. It is not material to the argument excepting as to the percentage of profit.

The fact of profit remains. The figures of Mutual companies are properly included, because they are included in any determination of the inadequacy or equity of rates. They are included by THE SPECTATOR, and must be included when quoting THE SPECTATOR.

NO SHRINKAGE IN CAPITAL OR SURPLUS

To state the facts in another way, utilizing the same SPECTATOR table:

Capital, 1910	$ 94,734,035
Capital, 1901	69,930,423
Gain in Capital	$ 24,763,612
Net Surplus, 1910	$257,529,237
Net Surplus, 1901	162,083,426
Gain in Surplus	$ 95,445,811

This shows:

1910 Gain in Capital	$ 24,763,612
1901 Gain in Net Surplus	95,445,811
Total	$120,209,423

There has certainly been no shrinkage in capital and no shrinkage in surplus in the ten-year period, although that period includes all of the great conflagrations mentioned—San Francisco, Baltimore, Toronto, Rochester, Paterson, Chelsea, etc.

How can it be true that a business which has retained its capital and satisfied its stockholders so that the value of the stocks of these companies is today approximately 3 to 1 in the market, is an unprofitable business?

How can it be true that the companies make no money in underwriting but make "great profits" out of the "banking business," when these particular companies make their reports under oath as above indicated?

RATIO OF PREMIUMS TO INVESTMENT EARNINGS

The tabulation shows:

Total income for the ten years	$3,055,370,182
Total net premiums for the ten years	2,788,020,735
Margin	$ 267,349,447

That margin is all that the compilation shows could possibly have been received from the "Banking Department" or "Investment Department," an average of $26,700,000 per annum.

The net premium income was an average of $278,800,000.

This shows the relative importance of "Investment Income" and "Premium Income," according to this table.

We do not accept any responsibility for THE SPECTATOR table excepting to quote it correctly. We do not try to reconcile it with the Gain and Loss Exhibit, because we are unable to do so.

CAPITAL AND SURPLUS

Refer now to the State Reports, Table No. 1, showing capital, surplus and percentage of capital and surplus to amount at risk.

(Table page 19, also Graphic Charts I and II)

When a railroad company reports its earnings as a certain percentage, that percentage is figured upon capital.

When the insurance companies figure their earnings, and report that they have made no money, the percentage is figured upon the amount at risk, not upon the capital.

The seventy-two millions of capital in this country (1910) carried an amount of insurance at risk in 1909 and 1910 averaging in Connecticut over thirty-nine thousand millions, and in New York over forty-two thousand millions.

A very small percentage upon forty thousand millions is a very fair percentage upon seventy-two millions.

After paying every expense and extravagance and all the losses of conflagrations and normal fire waste, this seventy-two millions of capital or less has put by in surplus, after paying dividends, an average of over eighteen million dollars per year, in round figures.

RECORD SINCE ORGANIZATION

Page 7 of the Convention form of Annual Report discloses the following items:

No. 3. Gross premiums received from the organization of company.

No. 4. Total losses paid from organization of company.

No. 5. Total dividends declared since commencing business: (a) cash; (b) stock.

The tabulated result of these inquiries has not been published, but an examination of the separate reports of a large number of companies shows that almost the entire amount of surplus is earned surplus, accumulated out of profits in the business. Surplus earnings over and above losses and expenses and dividends. The percentage of contributed surplus remaining in the tabulation is so small as to be negligible for purposes of comparison. It is far less than the amount of stock dividends which have been declared out of savings.

It is impossible to maintain that a business which has accumulated such a vast surplus over and above all losses and expenses and dividends is an unprofitable business.

Why should the State of Illinois accept the insurance companies' statistics without investigation and without analysis?

The conflict between the statistics and statements published by the insurance companies for public consumption, and the tabulations from the Gain and Loss Exhibit, ought to be investigated in the interest of the public and the property owners and of the companies themselves. If one set of figures is right, the other set is not right.

FROM TABLE I. STATE REPORTS

CONNECTICUT

STOCK COMPANIES—DOMESTIC AND FOREIGN

(Excluding Mutuals)

		Capital	Surplus	Capital and Surplus	% Capital and Surplus to Amt. Risk
1909	Conn. Co's.....	$ 11,000,000	$ 22,052,569	$ 33,052,569	.57
	Other States.....	49,807,067	96,375,132	146,182,198	.65
	Foreign Co's.....	5,000,000	25,736,272	30,736,272	.34
		$ 65,807,067	$144,163,973	$209,971,039	.52
1910	Conn. Co's.....	$ 12,700,000	$ 24,876,069	$ 37,576,069	.57
	Other States.....	53,600,000	102,062,322	155,662,322	.65
	Foreign Co's.....	6,000,000	26,313,390	32,313,390	.34
		$ 72,300,000	$153,851,780	$226,151,781	.52

NEW YORK

1909	N. Y. Co's.....	$ 21,050,004	$ 63,351,265	$ 84,401,269	
	Other States.....	47,962,067	62,475,907	110,437,974	
	Foreign Co's.....	(Not rept'd)	38,394,690	(Not rept'd)	
			$164,221,862		
1910	N. Y. Co's.....	$ 23,100,004	$ 65,883,997	$ 88,984,001	
	Other States.....	52,520,000	69,176,492	121,696,492	
	Foreign Co's.....	(Not rept'd)	42,090,992	(Not rept'd)	
			$177,151,481		

MASSACHUSETTS

1909	Mass. Co's.....	$ 3,600,000	$ 6,059,204	$ 9,659,204	
	Other States.....	62,357,067	119,214,881	181,571,948	
	Foreign Co's.....	8,400,000	26,082,407	34,482,407	
		$ 74,357,067	$151,356,492	$225,713,559	
1910	Mass. Co's.....	$ 4,100,000	$ 6,410,832	$ 10,510,832	
	Other States.....	67,499,999	126,760,343	194,260,342	
	Foreign Co's.....	9,700,000	27,944,273	37,644,273	
		$ 81,299,999	$161,115,448	$242,415,447	

These two examples, one of them taken from the summary of the Gain and Loss Exhibit, and giving the total results of the business since the organization of the companies, the other giving the underwriters' own figures as reported by THE SPECTATOR Year-Book of ten years' results, showing what money they started with, what they took in, what they paid out, and what they have left, are a complete disproof of the methods and statements of the underwriters which purport to show that the business has not been profitable.

With such a showing as this, why should not the State of Illinois establish some authority which will investigate and ascertain in the public behalf what the facts really are?

Why should the State of Illinois accept, unchallenged, the unsupported and unproved statements of the underwriters, when those statements are so widely at variance with the statements under oath made by the same companies in other States?

NOT BANKING BUSINESS

The Gain and Loss Exhibit has demolished the fiction that the companies make money in their "Banking Business."

There is no such thing.

They could not divert a dollar from their insurance business to the Banking Business without acccounting for it to the Insurance Department of the State. Their own charters and the laws of the States make it unlawful for them to engage in the Banking Business.

It was a false pretense always, but in any event it has now totally disappeared.

There is not a column, nor a figure, nor a dollar, available to wear the mask of "Banking Profit." All of the funds of the company are shown as part and parcel of the *Insurance Business.*

If diverted from that business to the "Banking Business," they could not appear upon any State Report as a resource of an Insurance Company. They are funds which the company must hold to meet outstanding obligations, and as a function of the Insurance Business.

Befuddled thinking or intentional deception must not be permitted to cause or excuse overcharge in the rate of premium, or wanton waste in the business methods of the companies.

WHY SHOULD THE STATE OF ILLINOIS CONTROL THE MAKING OF FIRE INSURANCE RATES?

Because the fire insurance business has become "impressed with the public use."

Because the power of the State is necessary to overcome the power of the organized insurance interests, which are dealing unjustly with Illinois.

Because the courts have decided that the State has the right and power.

Because other States have exercised that right, and their citizens have been benefited by it without doing injustice to the insurance companies.

Because it is impossible for the buyers of insurance to protect themselves without the aid of the State.

Because the record shows that the insurance companies have exacted from the people of Illinois far more than their fair share of the insurance tax.

Because rates as now made are not equitable and are not adjusted to fire loss.

Because the insurance companies do not keep, and never have kept, statistics which are adequate to form a basis for the establishment of just and equitable rates.

Because the principle upon which rates are now established is merely the commercial principle of making a rate that will get and hold the business at a profit to the underwriters, regardless of its injurious effect upon individuals, upon commerce, and upon the life and prosperity of the community.

Because the present system of making rates tends to perpetuate fire waste and to perpetuate the awful hazard of conflagrations.

Because a proper system of rating and enforcing rates would tend to reduce fire waste and loss of life and property.

Because the excessive charges which are now exacted by the underwriters in Illinois do not benefit the people of Illinois in any respect. The excess funds so collected are dissipated in unnecessary and abnormal expenses, in rate wars, discriminations, and marauding campaigns, to such an extent that the resources of the companies and their loss-paying ability are not strengthened, but are in fact weakened. The method, therefore, benefits nobody and is an injury to the public, which only the State can correct.

Because the underwriters themselves admit the faults and defects of existing methods, but declare that without the aid of the State they are unable to correct or to reform these conditions.

Because while the statistics and tabulations of the underwriters are inaccurate and misleading and inadequate for the purpose of making equitable rates, the service which they might render to the public is withheld from the public knowledge and is utilized by the underwriters for their personal profit at the expense of the property owner.

Because the underwriters have banded themselves together in secret organizations, under heavy penalties, not only of fines, but of social and business ostracism or boycott, as a means of maintaining their unfair grasp upon the people.

Because fire insurance premiums are a tax levied by conspirators, without the knowledge or consent of property owners.

Because the underwriters claim that the laws of the State give the property owner no power to question or review a rate, however unjust, and afford no tribunal or official before whom the property owner may apply for remedy.

Because other States and municipalities, and organizations within other States, have rights of review and redress, which are not granted by the laws of Illinois to her citizens.

Because the citizens of Illinois ought to enjoy every right and remedy to which the citizens of any other State are entitled at law or in equity.

Because commerce and industry are now handicapped in Illinois as compared with adjoining and sister States, and this handicap can be removed by legislation similar to that adopted in other States, and which has been found beneficial wherever adopted.

STATE FIRE INSURANCE BOARD

If it is the duty of the Legislature to provide measures of relief from existing fire insurance conditions, the question is, what form shall that legislation take? The record of the States which have attempted any form of regulation may serve as a guide in part. Where the authority assumed by the State has been partial and feeble, the progress of reform has been very slow and unsatisfactory. Where the State has assumed the initiative, progress has been rapid and economic and effective.

The practical thing is to create a State Board having power of initiative charged with the duty of investigating, of controlling, of revising, and of standardizing the whole system in the community interest.

Fire insurance should be treated as a community problem, not as an individual or company problem. Only the State has authority to treat it in that way. A Board rather than a single Commissioner is an imperative condition of successful operation.

No single Commissioner should be charged with the labor and responsibility of investigating and deciding upon the great variety of problems which are involved in the different forms of insurance, such as life, fire, casualty, accident, tornado, etc., etc.

The Commissioner's functions and responsibilities should be defined and he should be a capable official, certainly. If he is also a disinterested person, it might be proper to include him as a member of the Board.

The Commissioner acting alone must necessarily apportion his time and attention between the different forms of insurance.

A Board of three members, even with the Commissioner as a

member, would have a working majority which might proceed with its duty in connection with fire insurance alone.

A Board of this character should be given large responsibilities and large freedom of action, and to it should be referred all of the minor questions relating to rates, rules, practices, expenses, statistics, etc. In that manner co-operation will be established between the communities and the States and the Federal Government, and co-ordination of facts and standards, etc., will result.

This Board should be given ample authority to determine the reasonableness of a rate, and to establish that rate, after a reasonable hearing.

It should have the power to call upon the companies or corporations or voluntary associations or individuals who exercise governing or rate-making powers to exhibit all documents, books, statistics, etc., of whatever nature that may, in the judgment of the Board, or under the operation of the law, be necessary or useful for the proper performance of its several functions. This would give it the power to legalize existing rates and to correct them in detail after investigation, thus avoiding any abnormal or undesirable dislocation of existing business relations.

The Board should have the power of determining and standardizing schedules or other systems of rating fire hazard, and determining a reasonable rate.

The Board should have the right to appeal to the court in determining its own authority and the authority of associations, corporations, or individuals, with which it may have occasion to deal. With this authority it would be able to determine very promptly its own rights and authority and that of those claiming conflicting or superior rights and authority.

This method of solving the problem by the creation of a Rating Board will place this State in the front rank instead of the rear rank of current movements. The experience of other States along similar lines and the experience of this state, as time goes on, may lead to amendments or modifications of the plan.

Details of rates and practices will be tested and proved from month to month and year to year by the collection and tabulation of standardized statistics, which will be common to the problem in all of the progressive States. This will prevent arbitrary and ill-considered action upon the part of the Board and minimize the effect of errors of judgment either upon the public or the companies by reason of the publicity which will be given to trustworthy records of the several results.

BASIS RATE JUGGLERY

While it is certainly difficult to make an untrained man understand in a short time the intricacies of the Dean Schedule, and while even experts are mystified by it, as the testimony in the Missouri case plainly shows, it is very important to get clearly in mind that the practical application of this basis rate to cities and towns and risks, utterly ignores loss experience in those cases.

It is in fact a "joker" by means of which any jugglery of rates desired may be effected.

Mr. Fetter, the expert independent rater in Missouri, states in his testimony under oath, that while the printed books contain only tables from 60 to 120, he could work out any table which he wished to use either above or below those tables from 20c to $4.00, or any other figure, and still be using "the principles of the Dean Schedule." He distinctly states that he could so manipulate the Dean Schedule as to produce any result that he desired to produce, and that it would still be the Dean Schedule.

He not only could do so, but he actually had done so in every case, excepting in those cases in which he had been directed by the Governing Committee to raise certain particular classes an arbitrary percentage.

Practically the same state of things was testified to by Mr. Persch, the Illinois rater; Mr. Sellers, the Indiana rater; Mr. Waterworth, the St. Louis rater.

The printed definition of the Dean Basis Rate is that it is "the residuum of unanalyzed hazard."

Mr. Persch says it is determined "by water supply and fire protection in a town, and by nothing else."

Mr. Fetter says:

> "A basis rate under the Dean Schedule is a starting point at which we start, according to the height of the building, the kind of a building, and the location according to fire protection.
>
> "When we first started out a number of years ago, we started out with an 80 table, but that made rates too high. We later dropped to the 70 table, got along with that, and found it still to be too high; and we started to use the 60 table. (Brick buildings.)"

Q. You changed tables as you found the conditions justified it?

A. To such risks as the Dean Schedule applied.

Q. Upon what theory did you operate to determine that these rates were too high?

A. By tests; applications of the ratings themselves.

Q. How would you know that you had the rates high enough?

A. By *comparison with our previous rates* from time to time.

Q. Well, the theory of making a rate is to *produce a reasonable revenue,* isn't it?

A. That is my understanding; yes, sir.

Q. How did you find out that a reasonable revenue had been produced by a certain table of rates?

A. By *comparison with our previous rates* that we *thought were right;* by comparison with rates in my own office.

Q. How could you tell by comparing them with the rates what experience the companies had had on different classifications?

A. I didn't know the details of that only by comparison with the *general level of rates.*

Q. Were you supplied with any figures from any companies or from any agencies to help you in arriving at this result?

A. *No; not any specific figures.*

Q. Then it is more a matter of guesswork?

A. No, sir; it was a *comparison with the previous rates.*

Q. But you did not collect any actual data upon which you predicated the loss and profits of the insurance companies of the State?

A. I did not; no, sir.

Q. Then you simply arrived at that result by a general conclusion in your own mind?

A. By the application of those schedules; yes, sir.

Please note the utter disregard of Fire Protection, water supply, loss experience, insurance to value, classification of profitable and unprofitable rates, the effect of term insurance, cut rates, or any attempt to learn what other raters were charging upon similar properties in other States.

It totally abandons the theoretical basis and justification of schedule, or any other rating system. It simply fits a new ass's skin upon the same old lion.

Note how the further testimony confirms this:

Q. If you were going to Tennessee and were authorized to put in force and effect the Dean Schedule, what table would you select for Tennessee?

A. Oh, I would start out with any table and see what results I would get; *the general level of rates.* I would keep on testing until I was satisfied. If the conditions today were too high, I would work until I got them lower. If they were too low, I would test the tables until I *got them where I wanted them.*

Note: Where is there a suggestion in all this that Fetter had any conception of anything like "science" in rating, or any intention whatever of adjusting the rate to loss experience?

He rated Kansas City, but he compiled no statistics before doing so, and made no attempt to do so afterward.

Mr. Dudley, of the Union (on June 26, 1906), directed him to raise Flouring Mills 20%; Boot and Shoe houses 40%; Saw Mills 15%, and Summer Hotels 25%; and he thereupon issued a circular to that effect.

He was a professional "Independent Rater;" but without any change in any condition of Water Supply or Fire Protection or of any particular hazard in a risk or in a class, he promulgated that great advance over his published rates.

HOW FETTER CLASSIFIES TOWNS

Q. How are towns classified?

A. Oh, by their fire protection and ordinances.

Q. That is fully your theory, is it?

A. Well, some other details may enter into a town that I can't recollect now.

Q. Do you classify at all in regard to fire loss ratio?

A. No; not the classification of a town.

Q. You pay no attention to fire loss?

A. No, sir.

Q. Pay no attention to that in classifying a town?

A. No, sir.

Q. In fixing a rate, do you study fire losses?

A. Well, I can't say that I give it a general study, more than a question of whether rates are getting too low or getting too high.

Q. Well, do you study fire losses in fixing a rate. That is the specific question.

A. Well, I cannot say that I do.

Q. You do not allow the fire losses to enter into fixing the rate at all?

A. No, sir; not as to one locality.

Q. In making a basis rate, or fixing a rate of any kind, you have no fire experience to which you refer?

A. No; only the fact that the companies in general are making a profit in a State or not.

Q. Could you justify and defend any of the rates that you made?

A. No; only taking as a foundation the general level and the fact that they were considered in that proportion in that schedule.

Reams of this kind of thing could be compiled, all confirming the claim which I have made that the "Dean Basis Rate" is *not* what it purports to be, and that it may be and is manipulated and juggled with everywhere by everybody to produce the same result that had been obtained by existing schedules, if that level would hold the business, and was as high as "Underwriting Judgment" (not of the rater but of the Union Governing Committee) decided the property owner would pay.

Words could not make it clearer that the public is deliberately and purposely and systematically deceived by fair sounding words, and a pretense of mathematical and scientific measurement of hazard applied to every State, town and risk, while in fact the "Independent Rater" is a tool of the companies who has little or no underwriting knowledge or experience, who keeps no statistics of loss experience, and would not know what they meant if he did keep them. He wouldn't use them if he had them, not because they would not be useful and valuable if kept and used in the interest of the public, but precisely because the companies *do not want* them to be used in the public interest. That is all there is to it.

The Rater is no "expert," except in making the new schedule produce the same, or a greater, premium than the old. In many places that rate had been loaded up with the "pink slip" charge. When that charge had become so offensive to the public and dangerous to the companies that the companies feared to continue it as such, they interred it privately and decently in the Dean Schedule application, and hid it from sight without experiencing any pang of lost income.

SUPPLEMENTARY TOPICS

The foregoing statement and argument has been concerned mainly with a broad view of the situation as it exists, and of the rights and responsibilities of the parties in general terms.

Methods of meeting the conditions and of bringing about the needed reforms will involve a vast amount of detail.

If the Committee decides that it is the function of the State to afford some measure of relief through legislation, I desire on behalf of my own interests and of many other interests which I represent to present further facts and figures and argument showing:

1. The injustice practiced by the underwriters upon the people of Chicago and of Illinois.

2. The injustice of rates exacted in this State when tested by loss experience.

3. The injustice of rates when tested by comparison with similar hazards and rates in other States.

4. The malign influence of the power of the several voluntary boards and associations of underwriters upon the life and property interests of the entire State.

5. The responsibility of the underwriters through their practices for a large part of the fire waste and of the loss of life.

6. The responsibility of the underwriters for a large proportion of over-insurance and incendiarism and arson.

7. The injustice of the present system of adjustment of fire losses, together with suggestions for reforming such methods.

8. The importance of requiring that the Fire Marshal law shall be administered in the interest of all the people, and not of a class.

9. The need for reform in the matter of taxes and burdens levied upon insurance companies, all of which finally come out of the policyholder, together with a profit upon them which remains in the pockets of the insurance companies.

10. The importance of revising building codes, rules, and ordinances, with a view to their economic value in the conservation of property and life.

11. The importance of treating fire hazard as a community problem, rather than as an individual problem.

12 The importance of devising and introducing methods to normalize the hazard of cities and to eliminate the conflagration hazard.

13. The evil influence upon the business and upon the community of the present system of appointing and compensating agents, including the effect thereof upon fire waste and rates.

14. The hopelessness of expecting the underwriters and agents to reduce expenses and extravagances and profits without pressure from the outside.

15. The concealed purpose of the underwriters in the formation of so-called Fire Prevention Associations, which seek to distract the attention of the public from the excessive cost and profit of the business by raising a great hue and cry over Fire Waste, which is only one element of the problem.

16. The fallacy of the claims of the underwriters either that rates are adjusted upon the basis of loss experience or that they always give adequate, or even any, concession in the rate for improvement in the hazard.

17. The imperative necessity that the State take the initiative in establishing standards of practices, requirements, rates, statistical and financial records, adjustment of loss, revision of legislation in the community interest, and relief of the individual from the oppresssive power of conspiracy, in whatever form.

NEW YORK STATE FACTORY INVESTIGATING COMMISSION

IMPERILED LIVES

The Commission, consisting of nine members, began its hearings in New York City, October 10, 1911. The stenographer's report of the testimony covers more than thirty-five hundred pages, and includes the testimony of a large number of experts and specially trained men, as well as others.

This testimony is the latest expert thought up to date touching upon the interest which the community and the public has in the problem of the safety of life and property from fire. It should have the careful consideration of any person or Committee who may be considering similar problems.

At the suggestion of the Committee, I submitted in writing the following sketch or outline of a practical method of treating the problem from the community standpoint.

BROAD PRINCIPLES

The following suggestions are merely illustrative of the broad principle that it is entirely practicable to find ways to conserve life and property without encountering economic difficulties, without confiscating property, without checking the growth of the city, without causing the removal of existing industries, or the wasteful destruction of existing buildings. In fact, the community interest is overwhelmingly benefited, and no worthy private interest is sacrificed. It is merely a matter of readjustment along economic lines, and with an economic profit assured in advance amounting to an enormous sum of money, as well as to the conserving of thousands of lives every year.

NORMALIZED HAZARD

Some consideration has been given to exposure hazards and sweeping fires, but no one seems to have proposed the treatment of fire hazard as a unit, regardless of the ownership of the property. The units utilized have been single buildings, and to some extent groups of buildings, but the treatment of them has not been sufficiently comprehensive.

It is perfectly practicable to treat fire hazard by single blocks or by areas of exposing hazards as units of consideration, and to provide means of protection to life and property by voluntary or mandatory co-operation of owners, and by this means greatly reduce the cost and greatly increase the savings at the same time that the public, or to use another phrase, the "community interest," is being more adequately cared for.

Let me use the City of Louisville as an example. A careful investigation of the Sanborn maps and a physical investigation of the

properties shows that the protection of three groups of property, divided into one group of five blocks, one of four and one of three, will practically eliminate the hazard of sweeping fire, and as to integral fires will reduce the hazard to normal—that is to say, to a size and force which will almost certainly be controlled by the force of prevention or extinguishment which can be brought to bear upon it.

On the financial side this would represent quite an expenditure of money, but the compensating elements of cost of reconstruction and equipment, as compared with the cost of the non-co-operative effort at protection, will greatly overbalance it. The cost of indemnity will also greatly decrease. The cost of watch service, fire department, and water supply will be greatly reduced. The interruption of local traffic and transportation will be greatly minimized. As a corollary, the safety of life and limb will be greatly promoted.

OBJECTORS

The opposition of organizations of local agents must be anticipated and overcome. While there are local agents who have breadth of view, both from a business and a humanitarian standpoint, who would favor such improvements in conditions, the majority of those now profiting by the condition of hazard and loss through some form of rake-off in the premium will be adverse to the proposition, because a shrinkage in premium income, however occcasioned, will be evidenced in their pocketbooks.

The activity of this majority will manifest itself partly in the effort to maintain a level of rates above the legitimate level which is correlated to fire waste. This is a serious obstacle, because a municipal or State or department regulation which calls for a capital expenditure on the part of the property owners may be resisted by the property owner on the ground that it is uneconomic, and because the owner cannot afford the expenditure. If, on the other hand, it can be shown him that he will recover out of the savings in his insurance premium within a short period, say of three to five years, the entire capital expenditure and thereafter will realize an equivalent saving year by year upon his insurance premiums, all as velvet, his resistance will be minimized or eliminated. An overcharge in the rate such as the local agent seeks to establish and maintain therefore becomes a very important element in the problem and one which must be reckoned with.

BURDEN OF PROOF

In Kentucky we mean to overcome the opposition of the agent by taking the power of initiative of rating out of his hands and placing it in the hands of a State Rating Board. The board will establish the rate after investigation and a hearing of both sides, if that becomes necessary in any case. The insurance companies will only have to show the board by their statistics, or in some other convincing way, that the rate established by the board or proposed for the board to establish, is too low. In such case the board will doubtless

promulgate another rate which will be its conclusion as to what is a proper rate. The advantage of giving the board the initiative is that the burden of proof that the rate is too low will be upon the companies, rather than upon the assured or upon the board or upon the State. The companies claim that they alone have the statistics and the experience and the "underwriting judgment," and that this information is not in possession of the State or of the property owner, and they refuse to give the State or the property owner the benefit of that information. By reversing the position of the State and the underwriter, you will note, that either the board rate will become the published rate or the companies will have been obliged to produce their statistics and to show that such rate is inadequate.

If we had never had any experience with the working out of this form of problem, the question might arise whether the effect might not be that the companies would refuse to write the business and the property owner would be without indemnity. Fortunately, in several of the States, notably Kansas, Misssouri, Louisiana and Texas, the matter has been put to a test in many ways, with the result that no property owner has suffered for want of insurance and none of the companies have retired from the State on account of the rating laws. Furthermore, in Kansas, for instance, the companies can appeal from the decision of the Insurance Commissioner as to a particular rate upon a particular property, and ask for a correction of the rate because of its inadequacy. In spite of the fact that a large number of reductions have been made by order of the Superintendent, no company has applied in a single instance to have a rate declared inadequate by the court.

I mention this in order that you may not be stampeded by the protest or bluff of the underwriters in case such a thing should be attempted by anybody.

In the State of New York a different condition arises, but there Superintendent Hotchkiss has held that the Commissioner has the power to review rates and to determine their equity or adequacy. It seems to me that this, while not quite as strong a position as the Kentucky positon, is adequate to meet the problem, and that the property owners will be in position to present their case, and the underwriters will be given an equal hearing, and that the decision of the Superintendent will govern. In such case, this element o opposition of the agent through the promulgation of an excessive rate will be neutralized.

DIVERSE OWNERSHIPS

Opposition may also be expected from property owners by reason of diverse interests on one hand and because of the cost of the improvements, upon the other.

Take first the question of the separate ownership of the real estate and the contents, either of single occupancy or multiple occupancy. In our business we have repeatedly worked out this problem for all parties by obtaining a contract under which each party

contributes his savings toward the payment of the cost of the automatic sprinkler equipment and other devices in fair proportion to the benefits which will result to each. This sometimes necessitates a change of tenants or a change in the terms of the lease or the consent of a mortgagee or a trustee for bondholders, or of other detail problems; but they are all perfectly capable of solution for the mutual benefit of all parties when it is the purpose of the parties to get together in the interest of the whole.

Another class, either from narrowness of view, or from selfishness, or from criminal intent, may resist the effort. These people must yield to pressure from outside, exerted through the police power of the city or State, through pressure of ordinances or administration, or through pressure from surrounding property owners. It is perfectly competent for the State or the city to say to the objecting property owner that he will not be allowed to perpetuate his hazard at the expense of adjoining property owners and occcupants. Either he must take away the hazard or he must normalize it.

HAZARD GROUPS

Another class is property of such small value that it seems like confiscation to require its improvement in the interest of the community. This is a case in which by the co-operation of the "Hazard group," to coin a phrase, the contribution of all in the group toward the total cost of the improvements may be divided into portions corresponding to the benefit to each.

To explain this a little further. Properties housing high values may be exposed by properties of low values. It may not be economic for the low value property, considered by itself, to reduce its hazard, but it may be highly economic for the high value property to pay all or a portion of that expense for the sake of reducing the exposure hazard and the rate upon its high value and large volume of insurance. It may be quite difficult or impracticable to secure the voluntary individual contribution of one and another, but by treating the group of risks as one risk from the fire prevention and fire engineering standpoint, it is perfectly practical to make an aggregate of the total cost of protecting that area and to distribute the cost over the aggregate of savings in an equitable manner and by the police power of the State or the city to bring the necesssary presssure to bear upon the individual to produce the required result.

Whether these "hazard groups" consist of single city blocks or of dozens of blocks is immaterial. It is merely an engineering promlem at the beginning, an actuarial problem in the middle, and a joint contract problem at the end .

This "hazard group" system would make possible the combining of central water supplies upon purely economic and engineering lines. Whether a single city block would require one or several water tanks, or whether one water tank might supply several city blocks, is a mere question of engineering mathematics. The problem is simply to get the highest practical efficiency for the least money.

All of the questions of construction, maintenance, supervision, inspection and legal responsibility, are mere matters of detail, which any efficiency engineer would be competent to work out. Instead of having a multiplicity of power units, a contract would be made with some central power plant (such as a gas company, or electric light company, etc.) of ample responsibility and with adequate equipment to handle the business. Such a centrally controlled and contracted supply would be far better than the multiplicity of private supply systems. There would be far less hazard of failure on the part of engineers, watchmen, petty equipments, etc., etc., under a centralized organization than under the condition of scattered individual initiative.

It is conceivable that at this point in the problem the High Pressure System might be called upon to supply the tanks without the intervention of separate pumps and power installation. These tanks are of definite capacity, and the demand which would be made upon the High Pressure System for filling them and keeping them full would be easily controlled and regulated without imperiling the efficiency of the system in any respect.

I will not go further into detail at this time, thinking that this outline of suggestion will be a sufficient stimulus for you to follow up as you may see fit.

HUMAN SAFETY

The same treatment suggested for "hazard groups" in the matter of fire protection is equally capable of solving the problem of human safety by engineering and efficiency methods. Fire escapes, towers, stairways, balconies, baffling walls, elevator service, exits by roofs or at ground level, would find their place in the problem exactly as though all of the property were owned by an individual or by a State institution. It would become simply a question of the oconomic way of handling that "hazard group" of properties as though it were owned by one man and then bringing to bear the community interest and authority in its proper place and proportion.

EXCESSIVE REQUIREMENTS

In addition to the statements with reference to the opposition of the agents to a reduction of rates, I beg to call attention to the important part which is placed by the requirements imposed by the insurance companies in the matter of sprinkler equipments, water supply, watch service, etc.

Even when a rate for a standard equipment appears to be reasonable in amount, it may be so modified by excessive requirements in the matter of construction and operation, etc., as to make the installation impracticable or uneconomic. It is therefore not enough to know the figures of the schedule rate for sprinklered buildings. It is necesssary to go into all of the other clauses, penalties, requirements, etc., which modify the application of the rate in a particular case.

The importance of this consideration in the handling of "hazard groups" is clearly manifested when you consider that while a standard

equipment of an isolated plant may require a complete installation throughout the property, there are many plants or properties in which minor installations, covering certain areas only and protecting against certain hazards only, would reduce the risk to normal and eliminate an exposure charge from properties which would otherwise be loaded down with that exposure charge.

For example, a two or three-story building with basement might require only the equipment of the basement or of the basement and first floor to make it normal. The construction and occcupancy of the additional floors up to the fifth or sixth might be such that with the basement and first floor protected in that manner, the risk would be normal and an exposure charge against other properties would thereby be eliminated. In like manner, cases arise where the sprinkling of a few points in the building, such as the roof areas, upper floors, etc., of the Equitable Building in New York, and the store rooms and waste rooms in the basement might have been sufficient protection (or substantially so) to have prevented the destruction of that building from inherent fire. That is an engineering problem, and the Equitable Building is used merely as suggestive. I could not undertake to say without full engineering information whether the amount of installation indicated above would be just the right amount, or too much, or too little. As an illustration, however, it will not be misleading.

The companies are in the habit of giving credit for forms of protection and watch service, which they advocate as substitutes for automatic sprinklers. These credits are utilized to prevent the installation of the more serviceable sprinkler equipments, and the credits may be very much too large as a sop to the property owner for the purpose of saving a line to the agent and still maintaining a higher premium than a sprinklered property would pay. There are a great number of these details which are tools and cudgels in the hands of the underwriters for the purpose of "controlling the business."

The testimony before the New York Investigating Committee uniformly shows that the fire companies are not in this or in any other respect giving consideration to the safety of life. They make no pretense to have done so. They are simply concerned with the business of making profit out of fire hazard.

OPPOSITION OF FIRE DEPARTMENTS

We have encountered in almost every instance the opposition of the Fire Department or of the municipal authorities who have control of the Fire Department in any way.

Briefly, the statement may be made that the Fire Department is jealous of the substitution for a live fireman of a mechanical device. The opposition is continued even when it is recognized by all parties that the mechanical device is both cheaper and far more effective. The Fire Department interest usually frankly declares that it does not want to displace any firemen or fire apparatus, and, equally, does

not wish to have the growth of the department checked. The reason for this is obvious enough, but it is none the less very unfortunate for the community. If there are people who make wages or who make a profit out of supplies or equipment of every sort now paid for upon the side of the maintenance of fire department organizations and water supply, etc., their opposition may be taken for granted, but that is no reason why the community should consent to pay the price.

The problem before your Committee is to find an equitable level of adjustment, which while conserving the community interest in every reasonable way will eliminate as far as practicable the malign influence of greed and graft. ,

Without going into detail any further at this time, I beg to call your attention to the fact that the opposition of certain factions to connecting directly the High Pressure Water Systems to the automatic sprinkler equipments within the buildings and utilizing that high pressure as the source of supply, may be traced in the great majority of cases to the selfish influences noted above. There is no mechanical or engineering difficulty or novelty in the problem of utilizing high pressure for this purpose. The problem has been worked out in many places, and its efficiency and safety can be demonstrated from practical experience.

THE POWER OF THE STATE

I beg to call your attention to the conclusions which follow logically from the conception of fire insurance as a "tax," and the courts and your committee and the insurance companies all hold that it is a tax. A tax is a governmental function. The war of the Revolution was based upon the objection to taxation without representation.

The power to tax is practically the power to destroy in the case of fire insurance as under other powers of government. This is exhibited in the power of the companies to coerce individuals and communities by imposing penalties or by withdrawing indemnity. These powers the companies have exercised in the past in every State or city in which legislation looking to their regulation in the public interest has been enacted. The fact that the companies have abandoned such action in every case in which they came into conflict with State legislation, and have gladly resumed operation under laws which were declared by them to be confiscatory or oppressive, proves that at least the measure of regulation involved in these particular cases while beneficial to the public was not destructive to the companies.

THE ALABAMA CASE

The United States Supreme Court, in the Alabama case, has decided that "the fixing of insurance rates by self-constituted tariff associations or combinations is an evil against which the public should be guarded by such legislation as the State was competent to enact." Also, "the business of fire insurance . . . concerns a

very large number of people, particularly those who own property and desire to protect themselves by insurance. We can well understand that fire insurance companies, acting together, may have owners of property practically at their mercy in the matter of rates, and may have it in their power to deprive the public generally of the advantages flowing from competition between rival organizations engaged in the business of fire insurance. In order to meet the evils of such combinations or associations, the State is competent to adopt appropriate regulations that will tend to substitute competition in the place of combination or monopoly." "It was for the State keeping within the limit of its constitutional powers, to say what particular means it would prescribe for the protection of the public in such matters. The Court certainly cannot say that the means here adopted are not in any real or substantial sense germane to the end sought to be attained by the statute. Those means may not be the best that could have been devised, but the Court cannot, for any such reason, declare them illegal or beyond the power of the State to establish. So far as the Federal Constitution is concerned, the State could forbid, under penalty, combinations to be formed within its limits, by persons, associations, or corporations, engaged in the business of insurance for the purpose of fixing rates."

The Supreme Court decision upholding, by unanimous bench, the constitutionality of the Corporation Tax law will also ultimately govern the public relation of fire insurance.

EMINENT DOMAIN

The power of the companies to tax is a far greater invasion of property and private rights than the right of eminent domain granted to the railroad companies. Nobody questions the right of society to coltrol companies and organizations to which is granted the right of eminent domain. How can a question arise as to the right of society to control the power of voluntary organizations to tax private property to the extent of confiscation and the destruction of commerce and industry? The Eminent Domain right affects a small minority of owners and usually but a small portion of their property. The insurance premium tax affects every owner of property, and every important commercial transaction.

COROLLARY

The need of reformation is made clear by the reports of the Commissions; the power of regulation is made clear by the courts; the benefit resulting to the public through regulation is shown by the experience of every State in which it has been tried.

The right of the public and the property owner to require such legislative or administrative action as may be useful or necessary to protect the life and property of the citizens against the power of the organizations of insurance companies is the irresistible logic of this situation.